

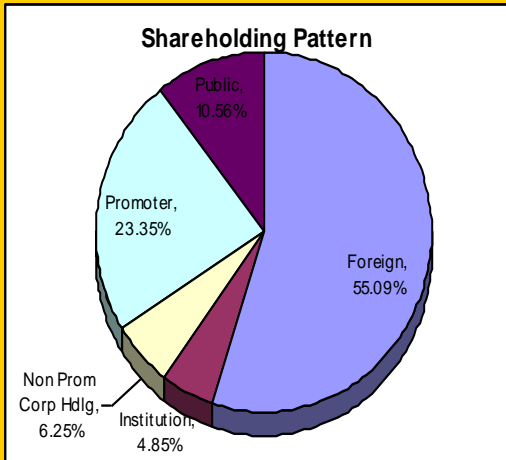
**Geodesic Ltd**

**Buy**  
(High Risk-High Return)

**CMP: - Rs 100**



Key Data	
Face Value:	2
52 week High:	198
52Week Low:	38.35
NSE Code:	Geodesic
Average Vol. (Monthly)	329661

## Company Background

The Company is an innovator in software products focused on Information, Communication and Entertainment for mobile phones and desktop computers under the 'Mundu' brand name for the retail segment. Geodesic Limited derives a major portion of its revenues in the enterprise segment from the integrated content, Customer Alignment and Relationship Management (CARM), real-time communication and collaboration suite. Geodesic offers a variety of services like Instant Messenger (IM), Internet Radio, and Voice over Internet Protocol (VoIP), remote desktop, etc., on the smart phone. The company has subsidiaries in USA, Hong Kong, Sweden and Singapore in addition to Indian Subsidiary ChandaMama Ltd.

## Investment Rationale

- **Niche Product Portfolio:-** Geodesic has Niche product line and its products Include the following :-
  - Retail Segment includes Mundu Range of Products:-
    - Mundu IM: - A multi lingual cross platform Instant Messenger.

- Mundu radio: - With over one Lakh Radios station available globally on Cell Phone. The company had tied up with Idea in 2008 to provide this service to Idea subscriber.
- Mundu Speak: - A VOIP based call system. A cell phone user can talk unlimited, globally at minimal charges. A user can converse at a rate that is 10% of the actual call rate. The calls can be made to 200 Countries. Mundu Speak generates average revenue close to Rs 2.5 Lakh per day.
- Remote Desktop: - For remote administrative services.

The company has signed up with several handset manufacturers, including BenQ, Mitac, Medion, etc., to preload Mundu IM and Radio as a part of their shipment. The company gets a pre-bundling fee between Rs.9 to Rs.45 per phone.

- Content Management (CM), Content relationship Management (CRM) and Collaboration: - The company provides its enterprise Suite that contains Customer Alignment and Retention management (CARM) module called "Spyder". The company also provides real time communication stack as part of its enterprise suite.

- The CRM industry is expected to grow beyond USD 10 Bn by 2010. Emerging economies such as India and China present excellent opportunity for company's products as currently the CRM software market is in nascent stage in these countries. An increasingly mobile and dispersed global workforce is compelling organizations to evaluate how they communicate and share content with critical contacts in order to make faster and better decisions. Over the next few years, companies will increasingly make collaboration-related purchasing decisions a key part of their IT investments.

- Portals and Publishing: - The Company has internet marketing business. With internet users expected to rise from 166Cr to over 200Cr in 2012, good potential for company's services in Internet marketing Domain Exists. The global internet marketing spend by 2010 is expected to be around USD 43Bn. The internet marketing spend is targeted at acquiring a customer base, building a community and thereby, generating advertising revenues. Customer acquisition cost consists of five major contributors in the internet space - pay per click advertising, banner advertising, SEO optimization, viral marketing campaigns and community management (headcount driven). The company has following applications for these services:-

- Mundu IM.
- Mundu IM Referral: - Virtual word of mouth marketing based on friend list and buddy list.
- Mundu IM around.

The company charges anywhere between Rs 0.25-0.60 Cr as licensing fee from publishing house and per user per year and per click through IM based Referral. Apart from this customization and support and up gradation fee that is about 15-20% of the licensing fee.

- ADEPT: -Ad Design and Placement Technology. A product for a billing mechanism on portal implementing pay per clicks or pays per performance.

- Hardware Business: - The Company manufactures Hand Held Devices called Simputer. These devices were used for e-governance pilot projects in three states. Moreover National Identity card project was done on Amida (Simputer). We expect the company to bag orders from the government once NID and NREG project gets on stream. The company has also come up with Open Learning with Autonomy and Interactivity (OLAI), a web based computing platform. The company is targeting world wide education market with this product. OLAI platform costs around Rs 20000.

- **Continuous Top line and Bottom-line growth:** - The Company has reported a topline and bottom-line growth of over 95% in the last five years. The topline increased at CAGR of nearly 100% from Rs 40Cr in FY 05 to Rs 642 Cr in FY09. Bottom-line has grown from Rs 19.09 Cr to Rs 282 Cr at a CAGR of 96%. With a niche product line we believe that the company would continue to post a growth in topline in the coming years. The

company had acquired 8 new clients in the last quarter. However, due to pricing pressures the sales and bottom-line to remain flat for FY10 but a significant uptick in both topline and bottomline from FY11 onwards is expected as pricing parity is restored.

- **Focus on developing economy to yield growth in topline:** - India is adding close to 8-10 Million subscribers in the telecom Sector every month. At present, India has close to 1.6 Cr internet enabled cell phone user. Tele density is increasing at a fast pace and so is the mobile device Industry. Similar trend exists in other developing economies such as China, Africa, Latin America and Middle East. Company is actively involved in increasing its presence in these economies. The company in last quarter had bagged clients in Latin America. The company plans to intensify focus on these geographies as it believes that these areas would give company incremental growth in the coming years.
- **Technology Convergence between IP, GSM and CDMA channels:-** A constraint on spectrum would push GSM and CDMA companies to adopt IP based telephony. More over, to serve the ever increasing subscriber base, particularly in India, Africa and Latin America . VOIP, which is still awaiting approval, would provide the necessary impetus for the company's growth
- **Constant product Research, Development and Launch:** - The Company has been constantly developing new products. The company was the first to come out with IM for I-Phone, the Instant Manager (IM) was well received. The company has constantly upgrading its products and launching new products. The company is launching SPOKN, a completely new branded retail VOIP service in the month of September and this is expected to be a major revenue earner for Geodesic going forward.
- **Planned Capex ahead and acquisition in the offing-** The Company plans to set up a facility for Simputer and push forward for acquiring new products. The management has stated that it is in talks to acquire a company in Europe for a consideration of USD 15-16 Mn. The targeted company is in the social networking space. The deal is expected to close down by Dec in Q3FY10.
- **Inorganic growth from FCCB proceeds worth Rs 500 Cr for Acquisition:** - The Company had raised USD 125 Mn through FCCB in Jan 2008 for acquisitions abroad. It had also bought back FCCB worth 8.5 Mn at a discount. The company has USD 113.5 Mn worth of FCCB outstanding conversion in 2013 at a price of Rs 256 per FCCB and a maturity yield of 6.6%. Geodesic has a past track record of acquiring companies, like E-dot, Picopeta and Chandamama, and improving their performance substantially, post-acquisition. Company has utilized some of these funds for investment in Subsidiaries and product marketing. Going forward, we expect the company to scout and acquire companies abroad. This would aid the company in reporting a growth in topline and Bottomline.
- **Dividend history:** - The management has stated that it proposes to step up the dividend payout to 10% from 5% at present.
- **Cash and Bank Balance:-** Company has cash and bank balance worth Rs 84 per share. If cash from proceeds of FCCB are not considered, Company has nearly Rs 30 per share of cash on its books.

## Quarterly Result Highlights

In Rs Cr (Cons)	Q2FY10	Q2FY09	Var (%)	Q1FY10	Var (%)
Net Sales	154.54	154.23	0.2	163.21	-5.31
Total Income	158.88	161.54	-1.65	173.88	-8.63
Total Expenditure	79.5	58.1	36.83	79.57	-0.09
PBIDT	79.38	103.44	-23.26	94.31	-15.83
PBDT	69.96	92.96	-24.74	85.18	-17.87
APAT	57.03	75.16	-24.12	51.19	11.41
PBDITM (%)	49.96	64.03		54.24	
APATM (%)	35.9	46.53		29.44	
EPS	6.19	8.15		5.55	
Equity	18.44				

The company reported a flat Topline on YoY basis; however company reported a 5% decline in sales Quarter on Quarter. The company also reported a decline in APAT YoY but 11% increase in APAT. The management stated this was primarily due to pricing pressure that it is witnessing:-

- In system integrator the average license price has come down to \$160,000 from the previous \$190,000 to \$210,000.
- The enterprise where revenue stream is per user, per month, revenue has come down by about 30%.
- The PAT for the company was lower YoY due to foreign exchange losses were due to forward contract and exchange losses.
- The company added 4 key management personnel in the quarter.
- The SMS turnover for the company for Q2FY10 was at 55000-60000 per day.
- The company reported increase in Number of VOIP minutes to 168,000 minutes in Q2FY10 as against 155,000 in Q1FY10.

## Peer Set

FY09 (Cons)	Geodesic	Allied Digital	Bartronics	KPIT	Sasken
Net Sales	653	552	588	793	697
Total Income	698	561	590	736	705
Total Expenditure	322	456	497	610	600
PBDIT	376	105	93	126	105
APAT	242.17	76.91	20.65	65.85	42.3
PBDITM (%)	53.87	18.72	15.76	17.12	14.89
APATM (%)	34.69	13.71	3.50	8.95	6.00
Equity(FV)	18.44(4)	18.11(5)	28.98(10)	15.61(2)	27.11(10)
EPS	26.27	21.23	7.13	8.44	15.60
CMP	95	233	154	104	150
Div/share	0.8	1	1	0	4
PE( FY09)	3.62	10.97	21.61	12.33	9.61

## Risk and Concerns

- Geodesic derives majority of its revenues in Foreign Currency and therefore adverse movement in currency can result in the company reporting lower OPM and PATM.
- Competition to intensify: - At present, the products like VoIP, Mundu IM, Simputer are unique but technological changes can result in new entrants into the market. Competition from well established large and mid cap IT companies may intensify in the coming years.
- The company has been in acquisition mode for the past few years and plans to acquire more companies. Integration of these companies would remain a key concern going forward.
- The company has Rs 500 Cr of funds that it had raised through FCCB lying un-utilized. The company needs to deploy these funds to improve its performance and ROCE.

## Valuation and Recommendation

Geodesic Ltd has a niche product line. The company has reported near 100% CAGR in top line and bottom-lines over the past five years. The company has increased its top line by acquiring companies and increasing its portfolio of products. It has also ear marked FCCB funds for more such acquisition abroad that would further fuel its top line and bottom-line. The company has announced that it would soon acquire a social networking company and the deal is in finalization stage. Company is also planning to set up a small facility for manufacturing Simputer in Roorkee. Company has worked on many e-governance pilot projects and hopes to bag orders from the government for the same. Company has been focusing on developing economies such as China and Latin America as new target markets with good growth potential. Company also plans to increase the dividend payout in the coming years. However, the company management has stated that pricing pressure for its products exists. We have estimated that company would report a growth of nearly 11% in its top line but pricing would continue to drag the bottom line for FY10. We expect the company to report growth in bottom-line FY11, fueled by new product launch and additional acquisitions. At current market price of Rs95 the company is trading at a forward

earning multiple of 4.17x for Consolidated EPS of 22.79 in FY10. We recommend investors to accumulate the stock at Rs 100 for a target of Rs 130 in twelve months time. However, due to market volatility a downside of 10-15% cannot be ruled out from the recommended range.

<b>Earnings Table (Cons) (Rs Cr)</b>				
<b>Particulars</b>	<b>FY08</b>	<b>FY09</b>	<b>FY10E</b>	<b>FY11E</b>
Net Sales	316.43	653.00	714	864
Change %		106.36	11	21
Total Income	328.78	697.77	738	900
Total Expenditure	123.57	322.20	347	405
PBDIT	205.21	375.57	391	495
Depreciation	33.62	54.08	98	115
PBIT	171.59	321.49	293	380
Interest	7.34	39.74	67	82
PBT	164.25	281.75	226	298
Tax	15.71	17.55	16	36
Reported PAT	148.54	264.20	210	262
Adjusted PAT	148.63	264.20	210	262
Change %		77.76	-26	25
Cash Profit	182.25	296.25	308	377

<b>Balance Sheet (Rs Cr)</b>				
<b>Particulars</b>	<b>FY08</b>	<b>FY09E</b>	<b>FY10E</b>	<b>FY11E</b>
Share Capital	18.43	18.44	18.44	18.44
Reserves	455.69	680.83	894	1126
Shareholder's Fund	474.12	699.27	912	1144
Loan Funds	507.07	502.00	502	502
Total Liabilities	981.19	1201.27	1414	1647
Net Fixed Assets	168.01	198.00	310	340
Investments	23.28	69.44	69	90
Net Current Assets	789.90	960.00	1075	1387
Total Assets	981.19	1227.44	1454	1817

<b>Key Ratios</b>				
<b>Particulars</b>	<b>FY08</b>	<b>FY09</b>	<b>FY10E</b>	<b>FY11E</b>
EBDIT (%)	62.42	53.82	53.00	55.00
PBIT (%)	52.19	46.07	39.71	42.22
PAT (%)	45.21	34.71	28.49	29.13
RoCE (%)	17.49	26.76	20.72	23.06
RoE (%)	31.35	34.63	23.04	22.90
Debt-Equity	1.07	0.72	0.55	0.44

<b>Valuations</b>				
<b>Particulars</b>	<b>FY08</b>	<b>FY09</b>	<b>FY10E</b>	<b>FY11E</b>
Adjusted EPS (Rs)	16.13	26.27	22.79	28.42
Cash EPS (Rs)	19.78	32.13	33.42	40.89
Book Value Per Share	51.45	75.84	98.93	124.12
Dividend per share	0.60	1.60	2.20	2.80
P/E	5.89	3.62	4.17	3.34
P/BV	1.85	1.25	0.96	0.77
M-Cap/Sales	2.77	1.34	1.23	1.01

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